

**GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011**

**SESSION LAW 2011-395
HOUSE BILL 344**

AN ACT TO ALLOW AN INDIVIDUAL INCOME TAX CREDIT FOR CHILDREN WITH
DISABILITIES WHO REQUIRE SPECIAL EDUCATION AND TO CREATE A FUND
FOR SPECIAL EDUCATION AND RELATED SERVICES.

The General Assembly of North Carolina enacts:

SECTION 1. Part 2 of Article 4 of Chapter 105 of the General Statutes is amended by adding a new section to read:

"§ 105-151.33. Education expenses credit.

(a) Credit. – A taxpayer is allowed a credit against the tax imposed by this Part for each of the taxpayer's eligible dependent children who is a resident of this State and who for one or two semesters during the taxable year is enrolled in grades kindergarten through 12 in a nonpublic school or in a public school at which tuition is charged in accordance with G.S. 115C-366.1. As used in this section, the term 'eligible dependent child' means a child who meets all of the following criteria:

- (1) Is a child with a disability as defined by G.S. 115C-106.3(1).
- (2) Was determined to require an individualized education program as defined by G.S. 115C-106.3(8).
- (3) Receives special education or related services on a daily basis.
- (4) Is a child for whom the taxpayer is entitled to deduct a personal exemption under section 151(c) of the Code for the taxable year.

For the initial eligibility for the tax credit, for at least the preceding two semesters, the eligible dependent child shall have been either (i) enrolled in a public school or (ii) receiving special education or related services through the public schools as a preschool child with a disability as defined by G.S. 115C-106.3(17). An eligible dependent child shall be reevaluated every three years by the local educational agency in order to verify that the child continues to be a child with a disability as defined by G.S. 115C-106.3(1).

(b) Amount. – The credit is equal to the amount the taxpayer paid for tuition and special education and related services expenses, not to exceed three thousand dollars (\$3,000) per semester. For home schools, as defined in G.S. 115C-563(a), the credit is equal to the amount the taxpayer paid for special education and related services expenses, not to exceed three thousand dollars (\$3,000) per semester.

(c) Semesters. – For the purposes of this section, there are two semesters during each taxable year. The spring semester is the first six months of the taxable year, and the fall semester is the second six months of the taxable year. An eligible dependent child is enrolled in a school for a semester if the eligible dependent child is enrolled in that school for more than 70 days during that semester.

(d) Disqualification. – A taxpayer may not qualify for a credit for any semester during which the taxpayer's eligible dependent child for whom the credit would otherwise be claimed met any of the following conditions:

- (1) Was placed in a nonpublic school or facility by a public agency at public expense.



- (2) Spent any time enrolled as a full-time student taking at least 12 hours of academic credit in a postsecondary educational institution.
- (3) Was 22 years or older during the entire semester.
- (4) Graduated from high school prior to the end of the semester.

(e) Reduction of Credit. – The amount of the credit is reduced for any semester in which the eligible dependent child spent any time enrolled in a public school. The amount of the reduction is a percentage equal to the percentage of the semester that the eligible dependent child spent enrolled in a public school.

(f) Information. – In order to claim the credit allowed by this section, the taxpayer shall provide, when requested, the following to the Secretary:

- (1) The name, address, and social security number of each eligible dependent child for whom the credit is claimed and the name and address of the school or schools in which the eligible dependent child was enrolled for more than 70 days each semester.
- (2) The taxpayer's certification that the eligible dependent child did not meet any of the disqualifying conditions set out in this section.
- (3) The name of the local school administrative unit in which the eligible dependent child resides.
- (4) The amount of tuition paid to a public school at which tuition is charged in accordance with G.S. 115C-366.1 for each semester the eligible dependent child for whom the credit is claimed was enrolled in the school.
- (5) The eligibility determination that the eligible dependent child is a child with a disability who requires special education and related services.
- (6) A listing of the tuition and special education and related services expenses on which the amount of the credit is based.
- (7) For home schools as defined in G.S. 115C-563(a), a listing of the special education and related services expenses on which the amount of the credit is based.

(g) Carryforward. – The credit allowed under this section may not exceed the amount of tax imposed by this Part reduced by the sum of all credits allowed against the tax, except payments of tax made by or on behalf of the taxpayer. Any unused portion of the credit may be carried forward for the succeeding three years.

(h) Transfer. – At the end of each fiscal year, the Secretary shall transfer to the Fund for Special Education and Related Services established under G.S. 115C-472.15 from the net individual income tax collections under G.S. 105-134.2 an amount equal to two thousand dollars (\$2,000) multiplied by the number of credits taken under this section during the fiscal year.

(i) Definitions. – The following definitions apply in this section:

- (1) "Special education" means specially designed instruction to meet the unique needs of a child with a disability. The term includes instruction in physical education and instruction conducted in a classroom, the home, a hospital, or institution, and other settings.
- (2) "Related services" is as defined in The Individuals with Disabilities Education Improvement Act, 20 U.S.C. § 1400, et seq., (2004), as amended, and federal regulations adopted under this act."

SECTION 2. G.S. 105-151.33(a), as enacted by Section 1 of this act, reads as rewritten:

"(a) Credit. – A taxpayer is allowed a credit against the tax imposed by this Part for each of the taxpayer's eligible dependent children who is a resident of this State and who for one or two semesters during the taxable year, is enrolled in grades kindergarten through 12 in a nonpublic school or in a public school at which tuition is charged in accordance with

G.S. 115C-366.1. As used in this section, the term 'eligible dependent child' means a child who meets all of the following criteria:

- (1) Is a child with a disability as defined by G.S. 115C-106.3(1).
- (2) Was determined to require an individualized education program as defined by G.S. 115C-106.3(8).
- (3) Receives special education or related services on a daily basis.
- (4) Is a child for whom the taxpayer is entitled to deduct a personal exemption under section 151(c) of the Code for the taxable year.

For the initial eligibility for the tax credit, for at least the preceding ~~two semesters,~~ semester, the eligible dependent child shall have been either: (i) enrolled in a public school, or (ii) receiving special education or related services through the public schools as a preschool child with a disability as defined by G.S. 115C-106.3(17). An eligible dependent child shall be reevaluated every three years by the local educational agency in order to verify that the child continues to be a child with a disability as defined by G.S. 115C-106.3(1)."

SECTION 3. Chapter 115C of the General Statutes is amended by adding a new Article to read:

"Article 32D.

"Fund for Special Education and Related Services.

"§ 115C-472.15. Fund for Special Education and Related Services.

(a) The Fund for Special Education and Related Services is established as a special revenue fund under the control and direction of the State Board of Education. Interest and other investment income earned by the Fund accrue to it, and revenue in the Fund does not revert. The Fund consists of money credited to it under G.S. 105-151.33.

(b) The State Board of Education shall use the revenue in the Fund only for special educational and related services for children with disabilities. In addition, the State Board of Education shall use revenues in the Fund to reimburse local educational agencies for conducting reevaluations for continued eligibility and developing revised individualized education programs pursuant to G.S. 105-151.33(a)(1)."

SECTION 4. The Department of Revenue shall report to the Revenue Laws Study Committee and the Joint Legislative Education Oversight Committee on the administration of G.S. 105-151.33, as enacted by Section 1 of this act. The report is due by October 1, 2013, and shall include the following:

- (1) The number and amount of credits taken under G.S. 105-151.33.
- (2) Any concerns relating to the administration of G.S. 105-151.33 or taxpayer compliance with the requirements of that section.
- (3) Any other matter with respect to G.S. 105-151.33 the Department wishes to address.

SECTION 4A. If House Bill 200, 2011 Regular Session, becomes law, then Section 2.1 of that act reads as rewritten:

"SECTION 2.1. Appropriations from the General Fund of the State for the maintenance of the State departments, institutions, and agencies, and for other purposes as enumerated, are made for the fiscal biennium ending June 30, 2013, according to the following schedule:

Current Operations – General Fund	2011-2012	2012-2013
EDUCATION		
Community Colleges System Office	\$ 985,000,000	\$ 985,000,000
Department of Public Instruction	7,464,492,057	7,450,000,000 <u>7,444,122,100</u>

University of North Carolina – Board of Governors		
Appalachian State University	145,563,319	145,680,676
East Carolina University		
Academic Affairs	247,397,807	247,397,807
Health Affairs	65,196,439	65,196,439
Elizabeth City State University	38,226,042	38,398,361
Fayetteville State University	56,925,951	56,925,951
NC A&T State University	105,355,805	105,794,754
NC Central University	94,342,683	94,342,683
NC State University		
Academic Affairs	434,563,241	434,677,423
Agricultural Research	59,239,461	59,239,461
Agricultural Extension	43,539,609	43,539,609
UNC-Asheville	42,004,444	42,004,444
UNC-Chapel Hill		
Academic Affairs	309,481,584	312,843,120
Health Affairs	219,507,009	222,570,732
AHEC	49,747,851	49,747,851
UNC-Charlotte	216,455,073	217,471,216
UNC-Greensboro	173,180,926	173,180,926
UNC-Pembroke	61,534,005	62,277,254
UNC-School of the Arts	27,796,473	27,796,473
UNC-Wilmington	105,943,181	107,138,757
Western Carolina University	90,591,556	91,070,460
Winston-Salem State University	76,496,951	76,496,950
General Administration	38,186,863	27,628,722
University Institution Programs	(375,153,400)	(383,808,914)
Related Educational Programs	85,679,060	115,272,420
UNC Financial Aid Private Colleges	91,635,664	86,534,065
NC School of Science & Math	18,937,535	18,937,535
UNC Hospitals	18,000,000	18,000,000
Total University of North Carolina – Board of Governors	\$ 2,540,375,132	\$ 2,551,672,698

HEALTH AND HUMAN SERVICES

Department of Health and Human Services		
Division of Central Management and Support	\$ 50,177,377	\$ 44,577,987
Division of Aging and Adult Services	37,019,667	37,019,667
Division of Services for Blind/Deaf/Hard of Hearing	8,389,110	8,372,886
Division of Child Development	266,102,933	266,102,933
Division of Health Service Regulation	16,133,031	16,133,031
Division of Medical Assistance	2,958,388,184	2,907,276,302
Division of Mental Health, Developmental Disabilities, and Substance Abuse Services	665,712,232	710,712,232
NC Health Choice	79,452,317	83,717,865
Division of Public Health	190,443,245	157,538,834
Division of Social Services	186,183,068	186,183,068
Division of Vocational Rehabilitation	37,125,788	37,528,128

Total Health and Human Services	\$ 4,495,126,952	\$ 4,455,162,933
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NATURAL AND ECONOMIC RESOURCES

Department of Agriculture and Consumer Services	\$ 65,460,864	\$ 62,198,634
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Department of Commerce

Commerce	50,852,340	33,250,463
Commerce State-Aid	32,851,025	30,151,984
NC Biotechnology Center	17,551,710	17,551,710
Rural Economic Development Center	25,376,729	25,376,729

Department of Environment and Natural Resources	165,784,887	148,148,105
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DENR Clean Water Management Trust Fund	11,250,000	11,250,000
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Department of Labor	15,836,887	15,836,887
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Wildlife Resources Commission	18,000,000	17,221,179
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JUSTICE AND PUBLIC SAFETY

Department of Correction	\$ 1,337,816,346	\$ 1,348,410,793
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Department of Crime Control and Public Safety	225,258,795	215,164,518
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Judicial Department	438,920,048	435,141,107
Judicial Department – Indigent Defense	110,091,526	112,748,733

Department of Justice	80,704,013	80,864,138
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Department of Juvenile Justice and Delinquency Prevention	135,593,692	131,140,565
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GENERAL GOVERNMENT

Department of Administration	\$ 63,607,330	\$ 65,511,460
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Department of State Auditor	11,857,574	10,676,035
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Office of State Controller	28,368,957	28,368,957
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Department of Cultural Resources

Cultural Resources	63,524,857	61,697,001
Roanoke Island Commission	1,805,236	1,203,491

State Board of Elections	5,186,603	5,126,603
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General Assembly	53,259,495	50,104,208
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Office of the Governor

Office of the Governor	4,741,157	4,741,157
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Office of State Budget and Management	5,848,663	5,848,663
OSBM – Reserve for Special Appropriations	1,940,612	440,612
Housing Finance Agency	9,673,051	9,673,051
Department of Insurance		
Insurance	36,393,921	36,393,921
Insurance – Volunteer Safety Workers' Compensation	2,294,000	2,623,654
Office of Lieutenant Governor	695,324	695,324
Office of Administrative Hearings	4,983,871	4,983,871
Department of Revenue	78,199,538	78,199,538
Department of Secretary of State	10,654,563	10,654,563
Department of State Treasurer		
State Treasurer	6,657,031	6,621,750
State Treasurer – Retirement for Fire and Rescue Squad Workers	17,812,114	17,812,114
RESERVES, ADJUSTMENTS, AND DEBT SERVICE		
Contingency and Emergency Fund	\$ 5,000,000	\$ 5,000,000
State Retirement System Contribution	248,100,000	336,000,000
Judicial Retirement System Contribution	6,800,000	7,800,000
Firemen's & Rescue Squad Workers' Pension Fund	4,318,042	5,366,928
State Health Plan	7,119,541	102,151,104
Information Technology Fund	4,458,142	6,158,142
Reserve for Job Development Investment Grants (JDIG)	15,400,000	27,400,000
Continuation Review Reserve	0	35,576,758
Comprehensive Review of Compensation Plans	2,000,000	0
Compensation Adjustment and Performance Pay Reserve	0	121,105,840
Severance Expenditure Reserve	69,000,000	0
Automated Fraud Detection Development	1,000,000	7,000,000
Controller – Fraud Detection Development	500,000	500,000
Debt Service		
General Debt Service	688,957,188	759,984,974

Federal Reimbursement	1,616,380	1,616,380
TOTAL CURRENT OPERATIONS – GENERAL FUND	\$ 19,678,116,193	\$ 19,943,327,275 <u>\$ 19,937,449,375</u>

SECTION 5.(a) If House Bill 200, 2011 Regular Session, becomes law, then Section 2.2(a) of that act reads as rewritten:

"**SECTION 2.2(a)** The General Fund availability used in developing the 2011-2013 biennial budget is shown below.

	FY 2011-2012	FY 2012-2013
Unappropriated Balance Remaining	\$ 0	\$ 13,980,015
Ending Unreserved Fund Balance for FY 2009-2010	236,902,394	0
Anticipated Reversions for FY 2010-2011	537,740,799	0
Anticipated Over-collections from FY 2010-2011	180,800,000	0
Repayment of Medicaid Receipts in FY 2010-2011	(125,000,000)	0
Statutory Earmarks:		
Savings Reserve Account	(185,000,000)	(183,650,000) 0
Repairs and Renovations Reserve Account	(125,000,000)	0
Beginning Unreserved Fund Balance	\$ 520,443,193	\$ 13,980,015
Revenues Based on Existing Tax Structure	\$ 18,129,800,000	\$ 19,181,900,000
Nontax Revenues		
Investment Income	\$ 59,400,000	\$ 76,700,000
Judicial Fees	217,800,000	217,800,000
Disproportionate Share	100,000,000	100,000,000
Insurance	71,400,000	73,500,000
Other Nontax Revenues	182,500,000	182,500,000
Highway Trust Fund/Use Tax Reimbursement Transfer	41,500,000	27,600,000
Highway Fund Transfer	20,230,000	24,080,000
Subtotal Nontax Revenues	\$ 692,830,000	\$ 702,180,000
Total General Fund Availability	\$ 19,343,073,193	\$ 19,898,060,015
	<u>\$ 19,344,423,193</u>	
Adjustments to Availability: 2011 Session		
Loss of Estate Tax	\$ (57,100,000)	\$ (72,200,000)
Small Business Tax Relief Package	(131,600,000)	(335,600,000)
Repeal Wildlife Resources Commission Sales Tax Earmark	22,970,000	23,920,000
Suspend Corporate Income Tax Earmark (Public School Construction)	72,110,000	74,750,000
Increase in Judicial Fees	61,765,715	61,765,715
Increase Investment Company Notice Filing Fee	1,600,000	1,600,000
Increase Parking Fees for Visitors	550,000	550,000
Loss of Revenue from the Town of Butner	(1,213,235)	(1,213,235)
Transfer from E-Commerce Reserve Fund	4,483,526	0
Divert Funds from Parks & Recreation Trust Fund	8,435,000	0

Divert Funds from Recreational/Natural Heritage Trust Fund	8,000,000	0
Transfer from Highway Fund for State Highway Patrol	196,849,542	188,209,049
Transfer Additional Funds from Highway Trust Fund	35,223,642	0
Transfer from Mercury Prevention Pollution Fund	250,000	0
Transfer from Commerce – Enterprise Fund	500,000	0
Divert Funds from Scrap Tire Disposal Account	2,268,989	0
Divert Funds from White Goods Management Account	1,951,465	0
Diversion of Golden LEAF Funds	17,563,760	17,563,760
Master Settlement Agreement Funds	24,668,720	25,580,772
Transfer Health and Wellness Trust Funds to Public Health	32,904,411	0
Department of Revenue – Accounts Receivable Program	25,000,000	25,000,000
Medicaid Disproportionate Share Receipts	15,000,000	15,000,000
Adjust Transfer from Insurance Regulatory Fund	(742,348)	(742,348)
Adjust Transfer from Treasurer's Office	(3,881,172)	(3,916,453)
Transfer from NC Flex FICA Funds	1,000,000	0
Proceeds from the Sale of State Assets	15,000,000	25,000,000
<u>Children with Disabilities Tax Credit</u>	<u>(1,350,000)</u>	<u>(5,877,900)</u>
Subtotal Adjustments to Availability:		
2011 Session	\$ 353,558,015	\$45,267,260
	<u>352,208,015</u>	<u>39,389,360</u>

Revised General Fund Availability	\$ 19,696,631,208	\$ 19,943,327,275
		<u>\$ 19,937,449,375</u>
Less General Fund Appropriations	\$ (19,682,651,193)	\$ (19,943,327,275)
		<u>\$ (19,937,449,375)</u>
Unappropriated Balance Remaining	\$ 13,980,015	\$ 0"

SECTION 5.(b) If House Bill 200, 2011 Regular Session, becomes law, then Section 2.2(m) of that act reads as rewritten:

"**SECTION 2.2.(m)** Notwithstanding G.S. 143C-4-2, the State Controller shall transfer only one hundred ~~eighty-five million dollars (\$185,000,000)~~ eighty-three million six hundred fifty thousand dollars (\$183,650,000) from the unreserved fund balance to the Savings Reserve Account on June 30, 2011. This is not an 'appropriation made by law,' as that phrase is used in Section 7(1) of Article V of the North Carolina Constitution. This subsection becomes effective June 30, 2011."

SECTION 5A. If House Bill 200, 2011 Regular Session, becomes law, then that act is amended by adding the following new section to read:

"ADM ADJUSTMENT

"**SECTION 7.31.** Notwithstanding any other provision of this act, the funds appropriated for the average daily membership (ADM) adjustment for public schools shall be adjusted to provide fifty-five million eight hundred eighty-two thousand six hundred fifty-one dollars (\$55,882,651) in the 2011-2012 fiscal year and one hundred thirty-seven million two hundred nine thousand five hundred fourteen dollars (\$137,209,514) in the 2012-2013 fiscal year. The funds appropriated for the ADM adjustment shall be distributed to modify allotments to charter schools and local school administrative units, reflecting changes in ADM due to population growth and other changes in State law."

SECTION 6. Sections 1, 3, 4, and 4A of this act are effective for taxable years beginning on or after January 1, 2011, and apply to semesters for which the credit is claimed beginning on or after July 1, 2011, except that transfers under G.S. 105-151.33(h) shall not be made before the 2012-2013 fiscal year. Section 2 of this act is effective for taxable years beginning on or after January 1, 2016, and applies to semesters for which the credit is claimed beginning on or after July 1, 2016. The remainder of this act is effective when it becomes law.

In the General Assembly read three times and ratified this the 17th day of June, 2011.

s/ Walter H. Dalton
President of the Senate

s/ Thom Tillis
Speaker of the House of Representatives

This bill having been presented to the Governor for signature on the 20th day of June, 2011 and the Governor having failed to approve it within the time prescribed by law, the same is hereby declared to have become a law. This 1st day of July, 2011.

s/ Karen Jenkins
Enrolling Clerk